

# A Labor View of Standards for Wage Stabilization

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I am very happy to be here this afternoon if for no other reason than to lend to the proceedings the tripartite character that the previous speakers have emphasized is so necessary to any fair consideration of the problems that we are discussing.

In passing I might say that I was very much interested in Mr. Gill's hope that some way might be found to get around the disputes provisions of the Taft-Hartley Law which he thinks are or may be an obstacle to the proper administration of any disputes procedure under Wage Stabilization. The labor movement has been suggesting ways of getting around that problem for the past three years. There are bills in the Congressional hopper now calling for the repeal of the Taft-Hartley Law. And as a matter of fact the C.I.O. has very seriously urged the repeal of this law as an aid to promoting the kind of unity and stability that we require during these critical times.

The manner in which the newspapers have handled the departure of the labor members from the Wage Stabilization Board would lead one to believe that the question of a percentage point or two of wage increase was crucial and that if the Board had come out with a 12 per cent formula instead of a 10 per cent formula labor would have been satisfied. It is also suggested that the walk-out of the labor members was prompted not so much by their dissatisfaction at the proposed wage formula as by their dissatisfaction over the failure of the administration to give labor a proper voice in policy making.

Although these were certainly important considerations, I believe that the action of the labor members of the Wage Stabilization Board would have been exactly the same if labor had been given a proper voice in policy formulation (although perhaps in that case the formula never would have been recommended) because I believe that the unions in this country and their leaders are convinced that this formula is unfair, that it is unacceptable to the American worker and that therefore it is unworkable.

It has been pointed out by several of the speakers, that the question of wage stabilization cannot be considered solely from the standpoint of economic principle. It is a political problem, one which involves the daily bread and butter of the working people of

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the United States. No matter how good a formula may appear on its face, no matter how sound it may be when tested by so-called economic principles for controlling inflation it will not work if it is regarded as unfair or discriminatory by the working people of this country.

Several of the speakers at both sessions today have suggested that the problem of wage stabilization is only one part of our general problem of controlling inflation. But curiously enough, that is the only part of the problem which has been vigorously dealt with. Food prices continue to rise at a scandalous rate and Congress dawdles and temporizes in considering even an unfair and inadequate tax program. There are important sections of the country without rent control and the Federal Rent Control Act is due to expire at the end of March. Speculation rages on the commodity markets and it cannot be controlled under the explicit terms of the Defense Production Act. The wholesale price index is skyrocketing, but wages have been effectively frozen for the past month and now it is proposed to stabilize them under a very rigid control formula. When I say wages have been effectively frozen for the past month I mean exactly that. It seems that a wage freeze is infinitely more easy to administer than a price freeze. An employer tells the union that he just cannot grant a wage increase without approval by the Wage Stabilization Board, because if he does he will be subject to a fine of \$10,000 and maybe a jail sentence. So wages are frozen. The impression created by the current national policy is that someone has decided to "get tough with labor". This stems from the fact that the resolution, indeed, the ruthlessness with which the wage problem has been handled seems to be in striking contrast with the temporizing, ineffectual approach to the related questions of taxation, price and rent control. In this connection the matter of dispute handling which Mr. Gill touched upon is relevant. There has been a violent dispute within the Wage Stabilization Board between the labor members and industry members with respect to the establishment of a disputes machinery within the Board. The industry members are vigorously resisting it. It has been suggested that one of the reasons for this attitude on the part of the industry members is that they feel that labor had all the better of it in the matter of dispute handling under the War Labor Board and that they do not want a repetition of that now. There may be good reasons for opposing the establishment of a disputes machinery within the Wage Stabilization Board, but this is not one of them. Rather it would seem to be another aspect of this "get tough with labor" attitude.

Mr. DiSalle himself, as we all know, has forecast a substantial rise in the cost of living at least until next summer. The Dun &

Bradstreet index of wholesale food prices has been rising sharply for the past ten weeks and now stands at 22 7/10% above the pre-Korean level and 25 4/10% above the level of a year ago. Anyone who has been buying groceries knows what has been happening to retail prices, and these wholesale prices are going to be reflected in the near future in the prices that we pay for food. Food is the largest item in the worker's budget. Now it would seem to be only common sense that this kind of a situation does not provide a proper basis for any rigid wage control formula. To firmly hold the line on wages while everything which wages must buy is rising is neither fair nor reasonable nor is it workable. The C.I.O. has charged recently that the entire price control program is a "cynical hoax". One does not have to go that far to agree that it has been completely ineffectual in controlling the cost of living.

It is revelant to consider the status of American corporations as bearing on the question of equality of sacrifice. According to the February report of the Council of Economic Advisors, corporate profits for the fourth quarter of 1950 were estimated as being the greatest in our history, at the rate of 48 billion dollars per year before taxes and 26 7/10 billion after taxes. Dividend payments were also at an all time high. There was no mere 10% rise over the preceding year in these figures.

As has been pointed out, and it is worth emphasizing, our country is very far from being on a war basis. We are still making a lot more butter than we are guns and civilian production goes on alongside a gradually developing armament program. The 50,000 casualties in distant Korea have done very little to dispel the business-as-usual atmosphere in this country. Congress itself seems much more concerned with some of the less important, but better headline-making aspects of its work, than in working out an equitable tax program which would put the main burden where it belongs, in conferring adequate power on the President and the Price Administrator to control prices and speculation and to protect people against rent gouging.

Against this background it simply does not make sense to impose a rigid wage formula. Even if the proposed formula were otherwise a good one, it would meet with resistance and resentment because the worker would feel, and rightfully so, that of all the elements in our economy he was being singled out for special treatment and that his wages were the one portion of the inflationary forces which was being controlled. The current situation cries out for a formula which is highly flexible and which can be molded to fit our developing needs as the defense program moves ahead.

As Mr. Daugherty pointed out, it was not until October 1942 that the War Labor Board obtained control over wages. Until that

time voluntary wage increases had been outside the jurisdiction of the Board. That was almost a year after Pearl Harbor. The country was at war. We are not in that kind of a situation now and perhaps we will never be. General Marshall and others have emphasized that what we have to look forward to is a long period of tension—a difficult period, because we will be neither at war nor at peace. We will be preparing for war while carrying on our civilian activities and this may continue for years. This again emphasizes the need for the greatest kind of flexibility in any approach to the wage problem.

It is stated in the Defense Production Act that any wage stabilization program should promote not only the stability of wages but also the stability of labor-management relations. It seems to follow that existing collective bargaining agreements should not be interfered with at this time by any stabilization formula which may be applied. There are at least two million workers who are under long term contract for terms ranging from two to five years, contracts which were signed in 1950 or before. Some of these contracts, like those in the auto industry, call for periodic wage adjustments based on the rise or fall of the cost of living and so-called annual improvement factor increases. Others provide for automatic wage increases in succeeding years. Some of them call for additional fringe benefits such as holidays or additional shift premiums or vacations in the later years of the contract. These contracts reflect the considered judgment of the parties as reflected in collective bargaining and their terms are the end result of the give and take at the bargaining table. Anybody who has had any experience in this field knows, for example, that the terms of a one year contract would not be the same as the terms of the first year of a two year contract or the first year of a three or five year contract. To declare these contracts inoperative would do violence to the intent of the parties and would have a serious unstabilizing effect. I do not believe, and I have seen no convincing evidence to the effect, that these contracts would have any substantial inflationary effect if permitted to run their course even if they yielded a little more than whatever percentage of increase was considered to be allowable under a stabilization formula. On the other hand the unsettling effects upon our economy of disturbing these contracts seem to me to be a danger to be avoided by a stabilization agency. Perhaps a year from now the view point that I have expressed may be subject to change. However, on the basis of the facts that are before us now, including the entire economic and political picture, it would seem to be most unwise to interfere with the operation of these contracts.

In addition, there seems to be a complete lack of consistency

between the position that these contracts may not be permitted to yield a higher percentage of wage increase than the formula may allow and the view which is taken of contracts for less than one year that were negotiated and went into effect before January 25. There are many unions which, like the coal miners, were able to obtain wage increases of 20% or more between the first part of 1950 and January 25 of this year. Incidentally I believe it is estimated that the value of the increases which Mr. Lewis obtained in the early part of 1950 and in January of this year, including not only the wage increases but the additional royalty payments to the pension fund which they obtained last year, total a little better than 20%. In most instances, as in the case of the miners, these increases were accomplished in two steps: a regular negotiation in the first part of 1950 and then a voluntary or premature reopening of the contract in the latter part of the year or in January of 1951. All of these contracts will be permitted to run their course and will not be disturbed under the proposed formula no matter how great the excess in wage increase may be over that contemplated by the wage formula. Yet, other unions which early in 1950 entered into two year contracts yielding more than the permitted percentage of increase by virtue of an automatic or cost of living increase in the second year will find their contracts in jeopardy. Why the latter situation is more inflationary than the former I cannot understand. Why it would have a more stimulating effect upon the inflationary spiral if Mr. Lewis had obtained 10% in 1950 and an additional 10% in May 1951 than it would have if he obtained 10% in the Spring of 1950 and 10% in January of 1951, I do not understand.

I believe that for the purpose of promoting stability and for the sake of consistency, and in this kind of a situation consistency is a good course to follow because it is very difficult for workers to understand why distinctions of this kind should be made, these long term contracts should not be disturbed.

This leads us to the question of escalator clauses, which have been touched on and which I was happy to hear Mr. Daugherty say should not be disturbed. I would like to talk about them at greater length. As I have said, I am not an economist. I have heard it said time and again that to permit these cost of living increases is inflationary and I have heard as many and as convincing arguments on the other side. It seems to me that they are inflationary only in the same manner as any accretion to the purchasing power of workers is inflationary. However, it is important to note that under these escalator clauses the rise in wages comes after the rise in the cost of living has taken place and not before. So it is at least clear that the wage increase is brought about by the rise

in living costs and not vice-versa. It is also clear that if such wage increases are not permitted, the real value of worker's earnings is reduced. It is also clear that if the line is held on prices and rents, as Mr. Daugherty has so well pointed out, the cost of living will be stabilized and the escalator clauses will yield no increases. The conclusion would seem to follow that the danger, if any, in escalator clauses, can arise only from the failure of the government to hold living costs down. And if the line cannot be held on prices, rents and other living costs, why should it be held rigidly on wages? It would be very hard to explain to American workers why cost of living increases in existing contracts should not be honored. In this connection Dr. George W. Taylor, who has also been advising the Wage Stabilization Board, in a very down-to-earth approach to this problem in a recent speech in Detroit, suggested that in view of the obvious inability of the government to cope with the problem of inflation on other fronts it might be appropriate, "... now to approve the operation of the wage escalator clauses of long-term agreements until some future specified date, say as far ahead as September or December 1951, for example, when the wage escalator matter would be again re-examined on its merits. By that time we may have developed a stronger inflation control program. Can we hope that by then the wage escalator clauses will be of academic interest because of the stabilization of the cost of living?". Here we have an example of the type of practical, flexible thinking which our present situation requires. It seems such obviously good sense not to disturb escalator clauses at a time when we have hardly come to grips with the problem of controlling inflation, that it is difficult to understand why those who are charged with the duty of formulating the wage policy have chosen even to raise such an issue now.

I would like to talk briefly about the base period for stabilizing wages. It has not been touched upon by any of our speakers and is important. What should be the standard here? It seems to me that the answer to this question is quite clear in the light of the language of the Defense Production Act itself, which states, and I quote it, "So far as practicable in exercising the authority conferred in this section," and this is the section dealing with wage and price control, "the president shall ascertain and give due consideration to comparable salaries, wages or other compensation which he finds to be representative of those prevailing during the period from May 24, 1950 to June 24, 1950 inclusive" which is the month just before Korea. The same period was to be considered for price control purposes. Yet when prices were frozen they were frozen at their peak in January 1951 while the proposed wage formula which has been recommended by the Wage Stabili-

zation Board would allow workers not more than 10% over January 15, 1950. Now, why that date? There has been no explanation as to why that date was used and I can't think of any good reason for taking the date except that it is just about at the beginning of 1950 and that it has the effect of catching all of the wage increases which were negotiated during the entire year of 1950. This, raises a very serious problem with respect to the entire question of stabilization. If you examine the statistics with reference to wage settlements during 1950 you will observe that those which were negotiated during the first part of the year before the Korean situation developed, were comparatively small, ranging around 5 or 6 cents an hour for the most part. After the start of the Korean War and up to the end of the year, there was a sharp rise in the size of wage settlements and they ranged commonly from 15 to 22 cents an hour or higher. The difference between these later increases and the earlier ones was not attributable merely to the rise in the cost of living but also to the increased activity and prosperity of industry and perhaps even more to the prospect of a further inflationary rise. The selection of the January 15, 1950 base date will effectively prevent those workers whose contracts were negotiated during the first half of the year from overtaking those whose contracts were opened after the Korean crisis. As Mr. Daugherty has pointed out, the purpose of the Little Steel Formula was to bring the laggards up to the level which had been attained by those unions which were able to obtain substantial wage increases during the pre-Little Steel Formula period, which was about 15 months. But this new formula which has been recommended by the Wage Stabilization Board, does not have that effect of permitting the laggards to catch up. There was a very interesting discussion of this question recently by Dr. Taylor in which he suggested that although the fifth round of wage increases was the round which was to take place in 1950, it appeared from the size and nature of the increases during the latter part of the year that there was an overlapping of the fifth and sixth rounds and that, therefore, it might very well be necessary to make some extra allowance to those employees whose contracts had been negotiated during the early part of the year in order to enable them to catch up. It would have been far wiser and more in keeping with the intent of Congress as expressed by the Defense Production Act if the base period of May to June of 1950 had been chosen instead of the base period of January 15, 1950.

The question of fringe benefits is of very great importance. These include holidays, vacations, premium pay days, rest periods, insurance, pensions and other benefits which are separate and apart from the actual wage scale. The question is, should the

value of these be included as part of the allowable percentage of increase permitted under the stabilization formula? The recommended formula which is in dispute at the present time takes a peculiar view of the problem. In respect to those fringe benefits which were negotiated before the date of the stabilization order, these would not be offset against the 10% which is allowed; but with respect to any contract negotiated after the date of the order, they would be offset against the 10% allowed. If only for reasons of administrative expediency, it would appear that fringe benefits should not be included as part of the allowable percentage of wage increase. While the cost of pensions and insurance plans may be readily ascertainable in many cases, how can one figure the cost to the employer of some of these other benefits? For example, I have heard employers complain bitterly during contract negotiations about the tremendous amount of premium pay which would result from making Saturday a time-and-a-half day, who virtually eliminated Saturday work completely once the contract had been signed. The same thing might be said of other types of fringe benefits. The dissenting opinion of the labor members who quit the Wage Stabilization Board points out, "The public members of the Board are in possession of a memorandum from the United States Bureau of Labor Statistics, which concludes that it is impossible to provide a quantitative measurement of many if not most of these forms of fringe compensation." From an administrative standpoint, the Board would do well to avoid the problem of trying to figure out the prospective cost to the employer of fringe benefits which may be in dispute.

The two fringe benefits which are of the greatest importance currently are insurance and pension plans, and you all know that unions have been laying great stress on these benefits in recent years. Payments of this kind by the employer do not place additional purchasing power into the hands of workers and they are not inflationary in any sense. It is true that they add to the cost of the product but considering the unparalleled prosperity of American industry it seems to me that this is a cost which could easily be absorbed without any inflationary effect if American industry were required to absorb it.

I have referred to the peculiar treatment of the fringe benefit problem in the proposed wage stabilization formula. If this treatment follows any logical rationale, I have not heard it. It is provided in effect that if a pension or an insurance plan was negotiated between January 15, 1950 and the date of the stabilization regulation, it shall not be included as part of the allowable 10% wage increase but that if a pension or insurance plan or any other fringe benefit is negotiated after the effective date of the



stabilization regulation, it is to be offset against the allowable wage increase. This schizophrenic treatment of fringe benefits is probably the result of a compromise within the Wage Stabilization Board but the net result is such a transparent inequity that the whole arrangement become indefensible. Why should a union which negotiated pensions and insurance worth 10% in December of 1950 be permitted to obtain another 10% increase in wages now, while another union which negotiated a 10% increase in wages in December 1950 is barred from negotiating either a further wage increase or any pension or insurance plan now. I have discussed this with workers and with union officials to get their reaction and I have obtained a very uniform reaction. They all tell me it's impossible. They say "There is no such animal." Seriously, this sort of unequal and illogical treatment of a very vital problem does not augur well for the future.

While it is true that the Defense Production Act requires the stabilization of so-called fringe benefits as "other compensation" this does not mean that they must be treated in the same manner as wages. It would be equitable, for example, and I think permissible under the law, to stabilize pension and insurance plans and other fringe benefits within the limits of commonly established programs in the industry or the area in order to prevent abuses.

Any equitable wage formula should provide for the correction of sub-standard wages. By sub-standard I mean wages which are below the level required for subsistence. Unions have not yet succeeded in correcting this situation completely and there are still very substantial segments of our population, particularly in unorganized areas, whose wages are below subsistence level. Such wages should not be frozen below the subsistence level by a stabilization formula. The commended formula makes no allowance for relief in such cases.

I would like to sum up very briefly. Any sound wage stabilization formula must be geared to the entire program of controlling inflation. That has been said so many times today that it sounds like a cliché but it is so important that it cannot be over emphasized. No wage stabilization program can succeed, nor does it deserve to succeed, if it means that workers will suffer reduction of their living standards while industry makes greater profits than ever and profiteering, rent gouging and speculation are permitted to continue unabated. The wage stabilization program can be effective only if it is accepted by American workers as embodying their equal share of the sacrifice to be made by all segments of our economy. They will not and should not accept a formula which amounts to a wage freeze for millions of workers — and this is true to a large extent of this recommended formula — while

the cost of living continues to mount and while our government makes no move to control food prices, or commodity speculation, or to siphon off the excessive income of corporations and individuals by an equitable tax program. If an attempt were made to impose such a formula on American workers it would result in such unrest and loss of morale as to threaten the national unity which our situation requires. It would unstabilize rather than stabilize our economy. It is to be hoped that the proposed formula will be scrapped in favor of a new and statesmanlike approach to the problem.